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Council of State in the Spring Report on Budgetary Monitoring: transparent budgetary policy needed for next government

When forming a new government, national budgetary policy is usually defined for the coming years. And although the Covid-19 crisis can be used to postpone doing so for a while, the Advisory Division of the Council of State recommends it not be delayed. A transparent and thus clear and predictable budgetary policy involves cornerstones for political decisions, for 'nailing one's colours to the mast'. It requires a consideration of interests, topics and budgets and accountability to voters and parliament with regard to the decisions taken. Aspects of broad prosperity can be taken into account when determining the cornerstones. Transparent budgetary policy must not have a limited horizon. It benefits from a fixed main decision-making point and expenditure and tax frameworks for the entire (four-year) government term.

This can be read in the independent 2021 Spring Report on Budgetary Monitoring published today (19 April 2021). The Advisory Division will explain the report to the permanent Finance Committees of the House of Representatives and the Senate in a closed session at a later date. In the Spring Report the Advisory Division assesses whether public finances comply with European fiscal rules; in the previous year, the current year and the coming year. The Advisory Division does this in accordance with its independent role as a fiscal monitoring institute, based on European regulations. The government's Stability Programme and this report are submitted to the European Commission in the context of the European Semester.

Deviation from the regular fiscal rules

Furthermore, the Advisory Division concludes that in 2020, Dutch public finances did not comply with all the targets in the Stability and Growth Pact, and that this is also expected to be the case in 2021 and 2022. These deviations will not have any consequences because, in March 2020, the European Commission decided that deviating from the regular fiscal rules is temporarily permitted, due to the extraordinary nature of the current crisis.

Recovery and Resilience Facility

The RRF is a component of the European agreements made in June 2020 on the multi-year financial framework of the European Union and the post-Covid-19 recovery of European economies. The ultimate goal of the RRF is growth, and the reduction of differences in prosperity between Member States. This means each Member State must compile and submit a Recovery and Resilience Plan (RRP). The plan must contribute to European priorities related to digital and green transitions. Accordingly, the RRF must contribute to productive investments, which usually come under pressure during times of budgetary constraint. The RRFs must also include Member State specific reforms, based on weaknesses in the economy, which vary from one Member State to another.

Submit a Recovery and Resilience Plan for the Netherlands before the summer

The national budgetary policy for the next government's term of office must be reconcilable with European fiscal policy. In this context the Advisory Division advises the caretaker government to submit a Recovery and Resilience Plan for the Netherlands before summer 2021, in order to be able to optimally work out the economic effect at the time of this crisis. Moreover, the RRP must be assessed by the European Commission and approved by the European Council before the end of 2021, to be able to claim pre-financing of maximum 13% of the subsidy. In the long term, the Advisory Division sees possibilities, under certain conditions, to afford the RRF a structural place in the European fiscal policy to be reviewed. The CPB Netherlands Bureau for Economic Policy Analysis and the Advisory Division, in its capacity as the fiscal monitoring institute, will assess the Netherlands' (draft) RRP in terms of the elements of the RRF; the digital and green transition and reforms and investments. In this assessment the Advisory Division will examine whether a draft RRP complies in letter and spirit with the main elements the European Commission has defined for the RRF.